

Consumer Products Operations



Masazumi Kikukawa

Director, Executive Officer, and
Executive General Manager of
Health and Home Care Products Division

Net Sales ¥262.3 billion (0.7% down)

Operating Income ¥8.7 billion (9.2% up)

Market Position of Products in Japan

Lion's major product fields and 2011 market positions in Japan

Toothpastes



No. 1 ¥75 billion

Toothbrushes



No. 1 ¥44 billion

Liquid hand soaps



No. 1 ¥18 billion

Laundry detergents



No. 3 ¥128 billion

Fabric softeners



No. 3 ¥69 billion

Dishwashing detergents



No. 3 ¥45 billion

Market size in Japan Source: 2011 INTAGE Inc., SRI Survey

Market Environment and Performance in Fiscal 2011

In the domestic markets for daily consumer products where Lion has a presence, unit prices rose temporarily because of the emergence of supply constraints following the Great East Japan Earthquake. However, for the full year, prices continued to decline from the previous year. On the other hand, sales in unit terms rose along with the increase in the number of single-person households and the rising percentage of sales of refills. As a result, overall sales in monetary terms rose about 1% over the prior year*¹.

The adverse impact of the earthquake on our operations amounted to about ¥8.0 billion in sales, and most of this was in consumer products operations. Sales, mainly in the oral care and laundry detergents businesses, declined temporarily because of difficulties in procuring necessary raw materials, but, as a result of recovery in materials procurement from the summer, sales showed a rapid recovery. However, the earthquake disaster had a major impact overall, and sales in 2011 were lower than in the previous year.

Under these circumstances, we worked to launch and nurture high-value-added products that offer the benefits of "health," "comfort," and "environment-friendliness." In the oral care business, sales of our core brands, including *Dentor Systema* toothbrushes and *Dent Health* and *Hitect* high-value-added toothpastes, expanded. In our beauty care business, sales of our fully renewed lineup of *Ban* antiperspirant items and, in our pharmaceutical business, sales of the *Smile 40EX* series of eyedrop products for middle-age and senior generations were favorable. In addition, in the fabric care business, sales of *Kaori to Deodorant no SOFLAN Aroma Rich*, a fabric softener with a long-lasting fragrance, continued to grow at a high rate. In the living care business, we newly introduced *LOOK Mame-Pika Toilet Cleaner*, which is an effective and easy-to-use toilet cleaner.

In the laundry detergent market, as the percentage of liquid detergents sold is rising, in September, we introduced an enhanced version of our super-concentrated liquid detergent *TOP NANOX*. Following its launch, sales of this product expanded, and it became the No. 1*² best-selling detergent item in its category.

Income of this segment increased over the previous year because of a number of factors. These included improvements in the product mix as a result of a higher percentage of high-value-added products, restraints on expenditures for sales promotion activities because of the decline in bargain

sales due to the earthquake, and efforts to reduce expenditures, including lowering manufacturing and logistics costs.

Implementing Lion's Basic Strategy: "V-1 Plan"

In our consumer products operations, we are implementing our "V-1 Plan," which has two strategic objectives: "Achieving qualitative growth in domestic businesses" and "Developing new business value."

By "Achieving qualitative growth," we mean the launching of new high-value-added products in growth fields, such as oral care and liquid laundry detergents. Along with this, we will increase our investments in advertising and focus them more sharply to substantially strengthen our mainstay brands. To attain these objectives, beginning in 2012, we have reorganized our health care and household businesses into one "Health and Home Care Business." The goal of this realignment is to combine all the strengths we have in these businesses to enhance our total marketing and operating capabilities as well as focus these on increasing the sophistication of our brand management and improving merchandising at the store level.

In the oral care, beauty care, and pharmaceutical businesses, we will aim to become an integral part of the daily lives of our consumers and offer products that bring greater cleanliness, health, and comfort to their daily lives. To accomplish this, we are working toward integrated, comprehensive communication with our consumers at all levels of the consumer interface, from media advertising to in-store promotions, with the aim of giving them ideas and suggestions for improving the quality of their daily lives.

In the fabric care and living care businesses, we will aggressively launch new products in growth fields, strengthen our brands by making continuing investments in advertising and promotion, and work to raise our presence in the market.

By "Developing new business value," we mean taking initiatives to create and nurture new functional food products in our direct-to-consumer sales business*³ as a second major support following lactoferrin. We will also proceed with the consideration of products in new fields and work to bring the annual sales in our direct-to-consumer sales business up to the ¥10 billion level by 2014.

*1 2011 INTAGE Inc., SRI Survey

*2 Result of Lion's research

*3 Excludes door-to-door sales

Oral Care Business

Market Environment and Performance in Fiscal 2011

In the domestic oral care field, sales of high-value-added toothpaste priced at ¥500 or more are expanding because of the growing trend toward self-medication, the demographic aging of the population, and the rising awareness of the importance of oral care. Also, along with the increase in the number of units sold of mouthwashes and other dental products, growth in the market remained strong during the year.

Lion, as the No. 1 oral care product company in Japan*, is working to develop and nurture growth of high-value-added products that respond to consumer needs. After the earthquake, difficulties arose in procuring materials for toothpaste and toothbrushes and sales declined temporarily, but, in July and subsequent months, sales made a strong recovery and contributed to overall growth in sales of this business. In particular, sales of the *Dentor Systema* brand series, which contributes to the prevention of periodontal disease, are continuing to expand rapidly and have recorded annual average growth of 16% since they were launched in 1997.

In the toothpaste category, sales of our enhanced mainstay product *Dentor Systema EX* and newly added products in the *Hitect* brand line featuring a milder flavor and taste were strong during the year. However, as a result of the earthquake, sales of toothpaste overall were about the same as during the previous year. In the toothbrush category, sales of a new type of brush with “*Shikkari-Kegoshi* (Core-Sheath Bristles) Type” in the *Dentor Systema* lineup and sales of *Lion Kodomo Toothbrush* featuring designs with well-known characters to appeal to children were both favorable. In the mouthwash category, sales of *Dentor Systema Haguki Plus*

(the gums) *Dental Rinse*, which remains on the gums longer to keep them healthy, were also favorable.

Strategy in Fiscal 2012

The oral care business is expected to recover from the effects in 2011 that followed the earthquake. In 2012, we will strengthen our position as the No. 1 company* in the oral care field by aggressively developing our key brands.

In the toothpaste category, in the market for medium-priced teeth whitening preparations, we newly launched *Clinica Enamel Pearl* in the *Clinica* brand line with the objectives of securing a wider consumer base and stimulating new growth in the medium-priced teeth whitening toothpaste market. In addition, in the toothbrush category, to further expand our market share and respond to consumer needs for removing plaque from all parts of the teeth to the maximum extent possible, we newly launched *Clinica Flat Cut* and *Clinica 3D Cut*, which feature improvements in the taper of the bristles and the shape of the toothbrush handle. Also, in the *Dentor Systema* lineup of products that offer preventive care for periodontal disease—which has expanded steadily since its introduction in 1997—we newly introduced *Dentor Systema Haguki Plus Toothbrush Soft Type*. This new toothbrush has softer bristles and responds to the expansion in the number of persons concerned about the deterioration of the condition of their gums as they grow older. We will work to introduce new products in the expanding markets for our two major brands in this business, *Dentor Systema* and *Clinica*, and strive to further develop their brand power.

* 2011 INTAGE Inc., SRI Survey

TOPIC

In recent years, women in their 20s and 30s, who have experienced change and development as they have passed through stages of life, from employment to marriage, pregnancy and childbirth, child rearing, and becoming friends with other mothers who have children of similar ages and interests, have shown an increasing awareness and desire of always maintaining teeth that are healthy and beautiful, like those of children, and seem to shine naturally. Our research has shown that women in this age-group want “to cultivate healthy and beautiful teeth.”* Moreover, as a result of this desire, the market for medium-priced teeth whitening preparations has expanded since 2009.*

To respond to this evolving need and expand its base of new consumers, in February, Lion launched *Clinica Enamel Pearl* toothpaste in its *Clinica* brand line, which thoroughly dislodges plaque while it also increases the density of the enamel on the tooth surface.

* Result of Lion's research



Yuki Inoshita
Oral Care Business Department

Beauty Care Business

Market Environment and Performance in Fiscal 2011

In the beauty care products market, the market for antiperspirants and deodorants grew in size, reflecting electric power conservation measures and the hot weather during the summer. Also, because of the effects of the norovirus epidemic, incidents of food poisoning, and other factors, demand for hand soaps and disinfectants rose. Moreover, the market for shampoo showed a slight rise, as a result of the increase in personal care products and the growing diversity of consumer needs. However, sales of hair treatments and men's hair preparations decreased from the previous year. As a consequence, the market as a whole showed a slight decline year on year.

Within the beauty care business, Lion is focusing especially on hand soaps and antiperspirants and deodorants. Our *KireiKirei* brand lineup of hand soaps is the No. 1 brand in Japan in this category*. During the year, activities included launching one-liter refills, introducing products with a new orange mixed fragrance (as limited edition items), strengthening the brand lineup in response to consumer needs, and implementing other measures to raise brand value. In the *Ban* antiperspirants and deodorant brand line, which has a long history of sales, we shifted the focus of appeal to consumers from fragrance to odor prevention and changed the package design from pastel colors to a stylish black. Sales of sheet-type deodorants, powder sprays, and roll-on types were favorable and exceeded the rate of growth in the market. However, sales of shampoo products were below the level of the previous year because of more-intense competition. As a result, overall sales in this business showed a slight increase over the previous year.

Strategy in Fiscal 2012

We have positioned skin cleansing and scalp and hair cleansing as a business domain within this business, and are continuing to strengthen our key brands in this field.

In the *KireiKirei* brand lineup, we are continuing activities to heighten the awareness of health and sanitation in kindergartens as well as primary schools and are positioning this brand line to encourage consumers to enjoy "washing their hands, gargling, and using disinfectants" as a regular part of their daily routine to maintain their health. In the hand soap field, as the No. 1 brand* in the domestic market, we are offering a diversity of products and implementing promotional activities with a wide range of themes. We are also striving to expand the market by encouraging consumers to use such peripheral materials as gargle preparations, disinfectants, and wet sheet products for different uses.

In the market for preparations combining shampoo and conditioner, we made enhancements in our existing *Soft in 1* products. We have added functions and value by offering not only preparations for quick hair cleansing but also products that make quick hair style in the morning possible. We are also stepping up our approach to new target consumer segments and working to expand the number of new users.

The *Ban* brand lineup will soon pass the 50-year mark since its launch, and we are endeavoring to further raise its market position by product improvements through implementing a full-scale renewal in 2011 and working to enhance the consumer awareness and acceptance of nano-ion style *Ban* products.

* 2011 INTAGE Inc., SRI Survey, on the basis of sales value.

TOPIC

Research on women's usage of deodorants has indicated that they have a range of usage patterns suited to their lifestyles*. These include "using deodorants several times during the day," "using several types of deodorants," "using deodorants when away from home," and "using deodorants throughout the year." In 2012, we will take *Ban* to the next stage in development through the launching of nano-ion style *Ban*, which will enable consumers to use *Ban* products for odor control suited to their lifestyles "anytime and anywhere." Nano-ion anti-bacterial ingredients adhere to the skin and have a continuing, odor suppression effect, and we have developed and launched improved versions of *Ban Deodorant Roll On*, which comes in easy-to-carry plastic bottles, and *Ban Refresh Shower Sheet*, which can wipe away perspiration and odor and leave the skin with a fresh feeling.

* Result of Lion's research



Mari Konishi
Beauty Care Business Department

Pharmaceutical Business

Market Environment and Performance in Fiscal 2011

In Japan's pharmaceutical field, although sales in the OTC pharmaceutical market have shown a decreasing trend, there is also a shift in progress toward more purchases of "Rx-to-OTC" medicines*, and the markets for new preparations for relief from fever and pain have expanded considerably, while demand for eyedrops for airborne pollen has grown. In combination cold medicines, competition is becoming more intense as market participants have placed emphasis on TV commercials. Sales of health tonics and insecticides were below the levels of the previous year, and the overall markets where Lion is a participant decreased in size. In response to these trends, Lion has stepped up its marketing investments, focusing on advertisements for antipyretic analgesic (fever and pain relief) preparations and combination cold medicines. We have worked to renew and upgrade our *Smile Contact* series of eyedrops for persons wearing contact lenses and added the *Smile 40* series made for the middle-age and senior generations. Through these initiatives, we are endeavoring to increase the value of our core brands.

Sales of antipyretic analgesic products held firm in 2011 and rose above the previous year. Among combination cold medicines, sales of *BUFFERIN "Kaze (Cold)" EX* were influenced by more-intense competition, and sales of these products were below 2010. In eyedrop business, newly introduced "cool-type" and the *Smile 40* series for middle-age and senior generations were favorable, giving a substantial boost to sales of these products. Sales of insecticides were below 2010. Overall sales in pharmaceutical business decreased from the previous year because of the impact of market shrinkage and greater competition.

Strategy in Fiscal 2012

Lion will implement measures to strengthen its base in this business, focusing on the *BUFFERIN* and *Smile* brand lines, while taking extensive measures to nurture new products and overseas business activities, while shifting to growth businesses.

In the *BUFFERIN* brand line, Lion introduced *BUFFERIN Luna i*, which adopts its patented "Quick Melt Process" that makes the key ingredient ibuprofen dissolve and go to work quickly to provide relief for headaches and menstrual pain. Another new product, *BUFFERIN Luna J*, which has been created especially for relieving menstrual pains among primary and junior high school girls, was introduced in 2012. In combination cold medicines, we are continuing to develop *BUFFERIN "Kaze (Cold)" EX* by drawing on synergies with antipyretic analgesic preparations, and will continue to strengthen the position of the *BUFFERIN* brand. Within the *Smile* brand lineup, we launched *Smile Contact AL—W*, which has been created for contact lens users who experience itching and other unpleasant sensations and contains the two ingredients that restrain itching and provide relief from inflammation. These product launchings are aimed at raising our position in the contact lens eyedrop field and helping to stimulate growth in the market.

Also, in our *PAIR* brand line, which is targeted at persons in their 20s and 30s who suffer from acne, we are introducing new medicines for oral and external use and are aiming to restart growth in this area. We will continue to nurture and maintain the profitability of *Guronsan* health tonic, *Varsan* insecticide, and *Stoppa* anti-diarrhetic.

* Former prescription (Rx) medicines that are now sold without a prescription at drugstore counters.

TOPIC

Women account for about 70% of users of antipyretic analgesics. Among women in their 20s in particular, about 70% reply that they take these medicines for relief from both headaches and menstrual pains. Lion's research indicates that among the number of fever and pain relief pills taken monthly, the number who suffer from headaches is greater than the number experiencing menstrual pain*. Based on these results, we are introducing *BUFFERIN Luna i* to meet the needs of women in their 20s for their expressed needs of "quick relief," "gentle on the stomach," and "contains no ingredients to induce sleepiness." We are aiming to establish a brand image for this new offering in the *BUFFERIN* brand lineup as "a fever and pain reliever for women in their 20s" that is effective for menstrual pain, headaches, and the discomfort of menstrual pain. We are working to add more female customers in their 20s, who take a high percentage of medicines for relief from fever and periodic pain.

* Results of Lion's research. Respondents indicate that their dosage for relief from menstrual pain and headaches is two tablets.



Yoko Hayakawa
Pharmaceutical Business Department

Fabric Care Business

Market Environment and Performance in Fiscal 2011

In Japan's fabric care field, within the laundry detergent market, the percentage of sales accounted for by liquid detergents is expanding and rose to 56% in 2011.*¹ Manufacturers introduced new super-concentrated liquid detergents, and these rose to account for 16% of the laundry detergent market*¹. Fabric softeners with high-value-added features, such as fragrances, including long-lasting scents, and deodorizers, have risen to close to 80%*² of that market.

Lion made investments, principally in its super-concentrated liquid detergent *TOP NANOX*, with the goal of raising its presence in the liquid laundry detergent market. Among fabric softeners containing long-lasting fragrances, which are a growth sector, we launched new products and implemented measures to further develop our brands and increase profitability.

The liquid detergent segment is continuing to expand, and Lion introduced an enhanced version of *TOP NANOX* in September 2011. Sales of this product expanded over the previous year, and it became the No. 1*³ detergent item in its category. However, other laundry detergents were adversely impacted by the effects of the earthquake, and overall detergent sales decreased from the previous year. In the fabric softener business, we introduced *Juliette*, a newcomer with a floral fragrance, to the *Kaori to Deodorant no SOFLAN Aroma Rich* softener lineup, which boasts longer-lasting fragrances than previous products. Overall softener sales expanded substantially over the previous year. However, fabric care business sales in total showed a significant drop from the prior year because of the effects of the earthquake.

Strategy in Fiscal 2012

Lion will aim to capture the No. 1 spot among manufacturers in the super-concentrated liquid detergent field by launching *Kaori Tsuzuku* (Long-Lasting Fragrance) *TOP plus*, a new laundry detergent with a long-lasting scent, and an improved version of *TOP NANOX* offering improved and powerful "new nano-washing" detergency. Among powder detergents, which still account for about 40%*¹ of the detergent market, we will launch three new products that feature improved dissolvability because of the incorporation of sodium bicarbonate. We have made improvements in existing products, including raising the detergency power of *TOP Platinum Clear* through increasing the enzyme content, strengthened the antibacterial power of *Heyaboshi TOP*, and made improvements in the fragrance of *BLUE DIA*. These activities include developing products that meet the needs of a wider range of laundry scenes, such as the use of washing machines that have a larger capacity and require less water, and reduce electric power consumption. We are also striving to increase consumer satisfaction among consumers loyal to powder detergents. Also, in the fabric softener market, we will launch new products that will raise the antibacterial potency of *Kaori to Deodorant no SOFLAN*—which has already won the No. 1 ranking*³ as the brand with the best image for "good fragrance"—by 50% and offer a major increase in deodorizing power. *Kaori to Deodorant no SOFLAN*, with its appealing "deodorizing power and fragrance," and *Kaori to Deodorant no SOFLAN Aroma Rich*, with its attractive long-lasting fragrances, are expected to drive growth in the fabric softener market.

*1 2011 INTAGE Inc., SRI Survey

*2 According to Lion's classification

*3 Result of Lion's research

TOPIC

As the fabric softener market expanded at about 5%*¹ over the previous year in 2011, sales of softeners with long-lasting fragrances*² expanded 52%*¹, thus propelling market expansion. Also, our research has given us the result that almost 40% of respondents want "the fragrance to last from the time of washing up to the time the garments are worn." *Kaori to Deodorant no SOFLAN Aroma Rich* is highly evaluated because of its "good fragrance" and "long-lasting fragrance." The *Aroma Rich* brand is reinforcing the special qualities of these softeners and is persuading people that "fragrances" are something to enjoy.

*1 2011 INTAGE Inc., SRI Survey

*2 According to Lion's classification



Chiaki Nakanishi
Fabric Care Business Department

Living Care Business

Market Environment and Performance in Fiscal 2011

The market for living care products sustained its expansionary trend, with increases above the previous year in both unit sales and prices. Growth was led by the toilet cleaner market where a large number of new products were launched.

Lion expanded its lineup of dishwashing detergent products and, in the household cleaner category, introduced new items that suggest lifestyle improvements that meet consumers' needs.

In the dishwashing detergent category, sales of the newly improved *CHARMY Crysta* series of automatic dishwasher detergents were favorable. However, overall sales in this product category were approximately the same as in the previous year because of weaker sales growth of *CHARMY Awa no Chikara (Power of Suds)*. In the household cleaner category, sales showed a major rise as performance of *Ofuro no LOOK* (bath cleaner) was robust, and customer response to the newly launched *LOOK Mame-Pika Toilet Cleaner*, which makes it easy to use for a "quick wipe" with toilet paper, was strong. In the cooking product category, newly improved *REED Healthy Cooking Paper* was affected by intense competition, and sales were below the level of the previous year.

As a result of these various factors, net sales of this business overall were approximately the same as in the previous year.

Strategy in Fiscal 2012

The market for living care products, such as dishwashing detergents and household cleaners, has been positioned as "mature," but, as a result of the introduction of new *LOOK Mame-Pika Toilet Cleaner* in 2011, sales in the market for toilet cleaners showed a major rise of 16%* over the previous year. Therefore, it is possible to expand markets by offering new benefits that are adapted to consumer behavior, such as enhanced functions, greater convenience, and fun in use.

In the dishwashing detergent category, since sales of gel-type automatic dishwasher detergents are expanding at 8% a year*, we are working to further nurture *CHARMY Crysta Gel* in the market because consumers can experience its strong cleaning power, are satisfied with its performance, and become repeat purchasers. Currently, gel-type automatic dishwasher detergents still account for just 21% of the dishwashing detergent market,* but further expansion is anticipated. In addition, in the toilet cleaner category, we launched an improved *Toile no LOOK*, which has improved viscosity to adhere to the "under the rim" portion of toilet bowls to facilitate detergency as well as a long-neck bottle for applying the cleaner "deep under the rim." This enhanced product features improved cleaning power to remove uric acid deposits, which are one kind of stain that consumers are particularly concerned about. Through the introduction of this new product, Lion intends to strengthen its position in the bottle-type toilet cleaners market.

In 2012, we will also launch more new products with superior, differentiated features and continue to strengthen the value of the Lion brand.

* 2011 INTAGE Inc., SRI Survey

TOPIC

In 2011, Lion's toilet cleaners showed expansion of 47% over the previous year, well above the 16%* expansion in the market as a whole. During 2012, we are proposing two products especially for cleaning the toilet room—"Toile no LOOK" and "LOOK Mame-Pika Toilet Cleaner"—that offer consumers fun and satisfaction as they clean. For the toilet bowl, "Toile no LOOK" does a potent job in cleaning the "under the rim" portion, where yellowish discolorations and odors frequently lurk. For space surrounding the bowl, "LOOK Mame-Pika" makes it easy to do a "quick wipe" with toilet paper to remove dirt and grime. With these two products, we are aiming to further stimulate market growth.

* 2011 INTAGE Inc., SRI Survey



Hironobu Yokote
Living Care Business Department

Other Products

The Other Products Business segment includes the goods-on-order business, which markets novelty items for corporations and gift items, such as combination sets of detergents for sale during the summer and winter gift-giving seasons in Japan. It also includes the functional food products business, which markets its products through direct-to-consumer sales channels,* and the pet supplies business relevant to pet products and pet treats.

Market Environment and Performance in Fiscal 2011

In the novelty items for corporations business, we launched a “Novelty Item Website for Corporations” and worked to further develop our customer base efficiently, but demand decreased as a result of the effects of the Great East Japan Earthquake. Sales of gift items were stagnant because our product supply capabilities during the summer gift-giving period were impaired by the effects of the earthquake.

In the direct-to-consumer sales business, we increased the number of customers purchasing *Nice rim essence Lactoferrin*, which provides support for regular and refreshing health habits, on a continuing basis. Sales of the product rose steadily as a result. Also, sales of *Tomato Su Seikatsu*, which is a specified health maintenance food product for persons with hypertension issues, and other health food products rose, and this business as a whole showed double-digit growth. In addition, sales of a new supplement, which was introduced in May 2011, got off to a favorable start. The product is recommended for middle-aged and older people concerned with their sugar intake. As a consequence, overall sales in this business topped ¥6.0 billion.

In the pet supplies business, despite the fact that the number of dogs and cats kept as pets in Japan remained at about the same level as in the previous year, sales of cat litter held strong, as a whole, and sales in this business expanded over the previous year.

Strategy in Fiscal 2012

We will endeavor to expand the volume of novelty items that we sell to existing customers and proceed with the development of new customers for these products. In the goods-on-order business, in view of the trend in recent years toward unseasonably hot weather in the summer, we will strengthen our lineup of *Hiepita Sheets*, which lower body temperature when applied to the skin, and other products. Moreover, in

the gifts business, we are expanding our lineup of combination packages to include the launching of a *TOP NANOX* gift box with an expanded range of products and are working to expand sales in the liquid detergent gift market, where growth is continuing.

In the direct-to-consumer sales business, we are continuing to make marketing investments—focusing especially on TV, newspaper, and Internet advertisements—and striving to expand the number of customers for *Nice rim essence Lactoferrin*, *Tomato Su Seikatsu*, and other products. Also, to make way for expanding our customer base in the years ahead, we are scheduled to make investments in call centers and related systems.

In the field of pet products, we are introducing a new dog sanitary sheet, which features Snoopy, the well-known cartoon character, on the package, and we will be working to raise our presence in this market. In parallel with this, we are strengthening and working to further develop our *Pet Kiss* lineup of oral care food products for dogs. We will also endeavor to develop new markets, including the launching of products for the direct-to-consumer and veterinary hospital channels, that will not be sold in existing retail stores.

* Excluding door-to-door sales

DIRECT-TO-CONSUMER SALES REACH ¥6.0 BILLION—AIMING FOR ¥10 BILLION IN 2014

We entered the direct-to-consumer sales business for functional food and other products in 2007, and in 2011 sales exceeded ¥6.0 billion. The number of customers who purchase these items on a regular basis has exceeded 100,000 (as of December 2011), which represents an increase of about 1.8 times the number at the end of the previous year. As a result of the introduction of a new product in May 2011, together with previously launched *Nice rim essence Lactoferrin* and *Tomato Su Seikatsu*, Lion has now completed its lineup of products to help support the health of middle-aged and older people. In our New Medium-Term Management Plan, which we began to implement this year, we are targeting sales of ¥10 billion in 2014, including both existing products and new business fields we will develop.

Industrial Products Business

Net Sales ¥52.4 billion (4.0% up)

Operating Income ¥0.4 billion (38.7% down)

Chemical Products Business

Market Environment and Performance in Fiscal 2011

In the Chemical Products Business, we are working to expand the sales and income of existing products and by developing new products, principally in our three core fields (ester derivatives, electro-conductive carbon black, and industrial cleaners). However, performance in 2011 was approximately level with the previous year due to reduced production among its customers owing to the effects of the Great East Japan Earthquake and the flooding in Thailand as well as the stagnation in exports caused by the appreciation of the yen. In the core field of ester derivative products, we have proceeded with work on the development of new, high-value-added products, including plant-based insulating oils. In electro-conductive carbon black and industrial cleaners, sales of electro-conductive carbon black to overseas customers for rechargeable battery applications were strong, but, as a result of the natural disasters, sales to the automobile and IT/electronics fields were below the previous year.

Strategy in Fiscal 2012

Although there will be demand in 2012 related to the recovery from the disasters, uncertain economic conditions are

expected to persist due to high raw materials prices, the appreciation of the yen, and other factors. Amid this operating environment, we will focus resources on our three core fields (ester derivatives, electro-conductive carbon black, and industrial cleaners) as well as work to increase sales and income by the aggressive development of new products and additional customers. In addition, we will formulate a medium-term business plan to promote the development of our international operations. In the core field of ester derivatives products, we will continue to actively develop the markets for high-value-added, plant-based ester derivatives, including insulating oils that have superior insulation properties. In the core field of electro-conductive carbon black products, we will continue with work on developing rechargeable battery applications for automobile use, where explosive growth in demand is forecast on a global basis, as well as on promoting significantly higher-performance conductive compounds for use in automobiles and electronic components. Similarly, in the core field of industrial cleaners, activities will continue to cultivate new customers in the automobile, IT/electronics, and precision medical machinery fields.

Detergents for Institutional-Use Business (Lion Hygiene Co., Ltd.)

Lion Hygiene manufactures and sells cleaning products, including various types of detergents for industrial use, bacteria-removing bleaches, hand soaps, and finger disinfectants. The principal customers for these products are hotels, restaurants, hospitals, nursing care centers, schools, government agencies, corporations, food processing plants, linen supply plants, and cleaning establishments.

Lion Hygiene also conducts on-site examinations for possible infectious substances on food processing equipment and machinery at the request of industrial food preparation centers, plants, and other locations. Lion Hygiene also provides comprehensive hygiene management services with the aim of helping its customers “to create clean, safe, and sanitary environments” by presenting proposals for improvement based on scientific data and preparing manuals.

Review of Fiscal 2011

In 2011, rates of utilization at hotels and restaurant chains declined because of the effects of the Great East Japan Earthquake, and the markets for detergents and rinses used in dishwashing equipment as well as hotel linens were stagnant. In addition, along with a spreading trend toward

conserving, on expenditures for professional cleaning, related demand has decreased, and this has led to a decline in sales of detergents to cleaning establishments. On the other hand, as a result of major food poisoning incidents, the awareness of sanitation, mainly at restaurants and elsewhere, increased, and sales of hand soaps, finger cleansers, and cleaning alcohol were brisk. As a result, overall sales of this business increased.

Strategy in Fiscal 2012

In 2012, the outlook is for the impact of the earthquake disaster on hotels and restaurant chains to recede. In addition, in part because of demand for recovery from the earthquake, recovery in institutional dishwashing detergents and hotel linens is expected. Moreover, as the awareness of sanitation takes stronger hold in people's consciousness, demand for hand soaps and finger cleansers is expected to hold firm.

Amid these conditions, in the hand soap field, this business will focus on expanding sales of high-value-added, foam-type hand soaps and establishing their position in the market. In addition, this business will work to expand sales of detergents for industrial dishwashers by developing new customers.

■ ESTABLISHMENT OF A JOINT COMPANY IN INDONESIA WITH IPPOSHA OIL INDUSTRIES CO., LTD.

Lion's wholly owned subsidiary Ipposha Oil Industries manufactures and sells functional industrial chemical products. To expand this company's business scale in the rapidly expanding Southeast Asian markets, in July 2011, it invested jointly with Lion to establish a new company in Indonesia to manufacture rubber non-adhesive additives used in the manufacture of tires.

■ ESTABLISHMENT OF LION IDEMITSU COMPOSITES CO., LTD., SUBSIDIARY IN INDIA

Lion Idemitsu Composites, which is a joint venture between Lion and Idemitsu Corporation, is accounted for under the equity method by Lion and manufactures and sells plastics that have composite functions, including resistance to fire and heat. In December 2011, Lion Idemitsu Composites established a subsidiary in India, where rapid growth in the production of automobiles and electric appliances is forecast.

Overseas Business



Kenjiro Kobayashi

Director, Executive Officer, and
Executive General Manager of
International Division

Net Sales ¥53.7 billion (1.5% up)

Operating Income ¥0.7 billion (28.2% up)

Products for Overseas Markets

Oral Care



Beauty Care



Fabric Care



Living Care



Lion conducts business operations in eight countries and regions in Asia outside Japan, including Thailand, South Korea, and Malaysia.

Market Environment and Performance in Fiscal 2011

The policy of this business segment is to provide products in the oral care and laundry detergent fields that contribute to the health and cleanliness of consumers and support the extension of their healthy life expectancy. In 2011, we conducted aggressive marketing activities in each country where Lion operates and endeavored to further nurture our brands. To respond to growth in demand going forward, we proceeded with the construction of new production facilities and began work on expansion of supply capacity. Moreover, in preparation for future business expansion overseas, Lion worked to strengthen the competitiveness and to widen the view for the personnel working in Japan.

Lion has positioned its laundry detergent *TOP*, oral care products *Systema*, body soap *Shokubutsu-Monogatari*, and hand soap *KireiKirei* as global brands, and activities are under way to expand the lineup of products in these brand lines. In addition, we are engaged in developing brands for local markets, including *Pao* laundry detergent in Thailand, *Beat* laundry detergent in South Korea, and *Ciptadent* toothpaste in Indonesia, by implementing the brand strategy of selling into both the high- and medium-priced segments. As a result of these various activities, sales of overseas business showed expansion over the previous year.

Although prices of raw materials increased significantly, operating income of this segment rose over the previous year, as we proceeded with reductions in costs through improvements in production processes and other means and increased the efficiency of expenditures for sales promotion activities.

Strategy in Fiscal 2012 and the “V-1 Plan”

To attain the objectives of Lion’s New Management Vision “Vision 2020,” we are implementing a medium-term management plan with a basic strategy of attaining quantitative growth in overseas business through aggressive product launches.

From 2012 through 2014, the term covered by the New Medium-Term Management Plan “V-1 Plan,” we are scheduled to complete new oral care product manufacturing facilities in Thailand and China and additional production capacity for laundry detergents in Malaysia. As a result of strengthening and upgrading our production and supply capabilities to meet expanding demand, we are aiming for the No. 1 market shares in Asia in oral care and laundry detergent categories. In addition, we are expanding our capabilities for product development, technological support, and product planning through closer collaboration between our operations in Japan and the other countries of Asia. These initiatives have the aims of proceeding with the aggressive development of oral care products and laundry detergents in the region and raising our presence in the markets for these products.

Along with these initiatives, we made the decision to enter the Philippines and establishing a joint venture with PEERLESS PRODUCTS MANUFACTURING CORPORATION, a local manufacturer of detergents. The Philippines is an attractive market for two reasons in particular. The birthrate there is high, even among Asian countries, and the forecast is for 24.98 births per 1,000 persons in 2012.*¹ In addition, the economic growth rate makes the market attractive, with 3.8% real GDP expansion forecast.*² Supported by these background factors, the toiletry market in the Philippines is expected to show robust expansion in the years ahead. Having good distribution is an important success factor in the Philippines, where a key geographic feature is that the country is made up of more than 7,000 islands. The strong distribution network of our joint venture partner will be a major competitive strength for expanding our business activities in the Philippines.

Looking toward future overseas business development, to strengthen our income base, we will strive to enter countries where we do not have a presence now as well as expand our product lineup and enter new product fields in those countries where we are already a market participant. In addition, to further develop our chemical products business overseas, we will endeavor to expand our business base in the rest of Asia, where growth is forecast in the years ahead.

Regional Reports: Thailand

Pao
Laundry detergents

Lion's sales in Thailand are the largest of any of its overseas markets. Since its entry into the market in 1957, Lion has expanded its product offerings to include laundry detergents, oral care items, body soap, dishwashing detergents, baby care items, and other products, and sales in Thailand account for 50% or more of consolidated overseas sales. Also, about 70% of our sales in Thailand are accounted for by products in the household field, including fabric care and living care items. Going forward, however, following the expansion of production capacity for our oral care products, we are planning to further expand sales in the personal care field, including oral care and beauty care products.

In 2011, the operating environment in markets where Lion is a participant was influenced by the floods in Thailand, which led to temporary increases in prices of food products and other daily necessities, which, in turn, resulted in restraints on consumption. However, after the floods subsided, conditions returned to normal and market conditions became favorable, in part because of the rising consumer interest in health and sanitation.

Lion's sales of laundry detergents in 2011 expanded, as a result of the launching of an improved version of high-value-added Pao and super-concentrated liquid detergents, which are sold primarily in the Bangkok area. In the oral care field, conditions in the toothpaste market were difficult because of increased competition, but sales of *Systema* brand toothbrushes increased significantly along with a new series of TV commercials. In the beauty care field, sales of *Shokubutsu-Monogatari* body soap posted a major increase, because of the effectiveness of focusing our resources more sharply on certain items and securing new users. In our sales activities, we formed a new organizational unit to visit retail stores and worked to substantially strengthen our outlets and raise our presence in the market. During 2012, we will continue our sales expansion activities by price zone and geographic area as well as proceed with our sales strategy of nurturing our core brands and launching highly differentiated products, with the goal of improving our sales and income performance.

Laundry detergent
sales area

Systema



Shokubutsu-Monogatari



Sriracha Factory (illustration)

Regional Reports: South Korea

Power Beat
Concentrated
laundry detergent



Ai-kekute
Liquid hand soap

In South Korea, Lion acquired the household chemical (daily necessities) business of the No. 3 laundry detergent manufacturer, CJ Co., Ltd., in 2004 and established CJ Lion Corporation. Since then, we have worked to expand our position in laundry detergents, oral care items, dishwashing detergents, hand soap, and other fields.

During 2010, competition within retail channels became more intense and had an adverse effect, mainly on our laundry detergent business, but, in 2011, price competition subsided, and sales of laundry detergents expanded over the previous year. Especially in the liquid detergent market, which is a growth segment, our in-store sampling and demonstration campaign for *Power Beat* liquid detergent had a positive impact, and sales growth was favorable, exceeding the rate of expansion in the market as a whole. In May 2011, we launched *Power Beat for 1/2 Drum Washers*, a concentrated powder detergent containing plant-based surfactant methyl ester sulfonate (MES), which has high detergency power, manufactured by our consolidated subsidiary Lion Eco

Chemicals Sdn. Bhd. in Malaysia. In the oral care field, we focused on high-value-added products, including *Systema Sonic Vibration Assist Toothbrush*, an electric toothbrush, and *Systema Night Protect*, a night-care toothpaste. Also, in the beauty care field, sales of hand soap *Ai-kekute* (sold under the brand name *KireiKirei* in Japan), which is marketed with the theme of instilling good hand cleansing habits, were quite favorable.

Looking ahead, we have positioned improving the profitability of our existing business operations in South Korea as well as nurturing and strengthening our oral care *Systema* brand as core themes. We will aim to further develop the market for super-concentrated laundry detergents in the expanding liquid detergent market and make further investments in strengthening our marketing activities for the *Systema* series of oral care products that we launched in 2009 and, thereby, raising our presence in the market.

*1 Source: CIA, The World Factbook

*2 Forecast prepared by Mitsubishi Research Institute, as of February 2012



Beat Drum



Systema Sonic
Vibration Assist Toothbrush



CSR activities-nursery
home visit

Other Regional Reports

All figures are on a local currency basis.

*1 Company accounted for under the equity method

*2 Result of Lion's research

Malaysia ^{*1} ①



TOP
Laundry detergents



New drying tower for powder detergent

Lion secured the No. 1 position in the laundry detergent market in Malaysia in 2009 and has held that position since then^{*2}. In 2011, the launching of an improved version of body soap *Shokubutsu-Monogatari* and related promotional activities were effective and resulted in robust sales growth. In 2012, we will complete new facilities for manufacturing laundry detergents that will approximately double our production capacity in Malaysia.

Singapore ②



Shokubutsu-Monogatari BS
Body foams



Kirei Kirei
Liquid hand soaps



Sales rose over the previous year's level due to activities to nurture and strengthen the position of *Systema* toothpaste and toothbrushes, the launching of an improved version of *Shokubutsu-Monogatari* and accompanying promotional activities, and the expansion of the lineup of products sold under the *Kirei Kirei* brand.

Indonesia ^{*1} ③



Mama
Dishwashing detergents



Ciptadent
Toothpastes

The market for low-priced items is shrinking, but the medium-priced segment is expanding. In the oral care field, sales continued to be firm as we launched an improved version of *Ciptadent*, our local brand in the Indonesian market and strengthened our sales promotion activities.

China ④



Zact
Toothpastes



Systema
Toothbrushes

In the oral care field, in-store promotions and coordinated TV commercials focused on major urban areas were successful and resulted in an increased awareness of our brands. In December 2011, we began the marketing of *TOP* liquid laundry detergent.

Taiwan ⑤



Systema
Toothbrushes



Shokubutsu-Monogatari
Body soap



Lanpao
Laundry detergent

In the oral care field, sales of *Systema* toothbrushes were favorable in part because of the positive effect of TV commercials. Overall, sales in 2011 were above the level of the previous year.

Hong Kong ⑥



TOP



TOP NANOX

Laundry detergents

Sales expanded over the prior year, with double-digit growth in the oral care, fabric care, and living care fields.

Research and Development

Lion's Core Technologies and Basic R&D Themes

As Lion aims to attain its objectives under "Vision 2020," technological innovations and the development of new products will be indispensable. Our "technological DNA," or, in other words, our core technologies, spans the fields of washing and oral care. In addition, these technologies will form the base for realizing the three "innovations" mentioned in "Vision 2020:" namely, "Life Innovation," "Green Innovation," and "Knowledge Innovation."

Washing technologies are surfactant-related technologies. Following many years of research on plant-based surfactants, in 1991, we succeeded in commencing the commercial production of methyl ester sulfonate (MES), a detergent ingredient we developed originally, and adopted it in products. A key feature of MES is its high detergency even when used in small amounts. MES is also environmentally friendly because it is carbon neutral, does not increase the total amount of CO₂ in the atmosphere, and is biodegradable.

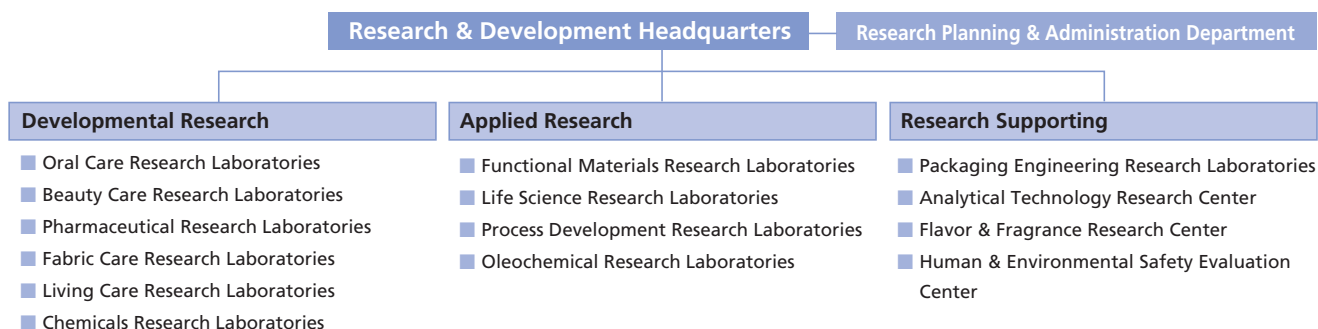
Our oral care technologies are applied in the development of toothpastes, toothbrushes, and other related products that contribute to the prevention and treatment of oral diseases. Recent research has made clear that periodontal disease has an influence on systemic diseases, such as heart attacks and diabetes. Therefore, through our oral care technologies, we are contributing to extending people's healthy life expectancy.

As part of our Medium-Term Management Plan "V-1 Plan," which covers the period from 2012 through 2014, we are working to strengthen our direct-to-consumer marketing. In the coming years, we will significantly increase our investment of resources in the development of functional food products, which are mainstay items in our direct-to-consumer marketing initiatives, and endeavor to support consumers with products that are effective in improving health and enhancing the quality of life.

Lion's R&D Organization

Our Research and Development Headquarters comprises the following three divisions.

- The first is our Development Research Laboratories, which consists of seven R&D laboratories working in six product categories, such as oral care, fabric care, and pharmaceuticals. These laboratories engage in the mutual interchange of technology to realize synergies and accelerate the pace of R&D, as they also collaborate closely with Lion's product planning departments.
- The Applied Research Laboratories works to discover the buds for new technologies and materials through the use of surface science, life science, and other scientific knowledge. This division makes analyses of various substances in actual use and their intravital mechanism of action, and, based on solid evidence, undertakes research to apply these.
- The Research Supporting Laboratories provides assistance to the two previously mentioned research divisions by making assessments of the safety of products vis-à-vis the human body and the natural environment. It also addresses issues through the use of advanced qualitative as well as quantitative analytic technologies and is responsible for enhancing product value added by developing technologies related to fragrance, tastes, and packaging.
- In addition, we are currently implementing Phase II of our R&D center redevelopment plan and are scheduled to open a new R&D center in 2013 with the aims of increasing our knowledge of R&D and production technology and strengthening our consumer research.



Three Awards Received from Leading Academic Associations in Japan for Life Science Technology Developed through Lactoferrin Research

Lactoferrin is a multifunctional protein found in breast milk, mainly of mammals, which has antibacterial properties and works to strengthen the immune system. In the case of human beings also, lactoferrin has come to be known as a substance that protects babies from a wide range of diseases.

Lion Corporation has conducted research on the effects of lactoferrin as a functional food, and worked to expand the range of its functions. In 2006, we confirmed in tests on animals that lactoferrin has the effect of deactivating lipopolysaccharide (LPS), a toxic substance related to the production of periodontal bacteria and the spreading of periodontal disease. In addition, as we proceeded with our research in the field of oral care, one of our research workers discovered accidentally that lactoferrin administered to laboratory mice had the effect of reducing their visceral fat. Following this discovery, as a result of consideration of cultured cells, it became clear that lactoferrin has a significant effect in restraining the accumulation of visceral fat. This happened just as interest in the health of middle-aged and older people was rising in Japan.

We proceeded with our research on lactoferrin to investigate the reduction in visceral fat, which has a close connection with the health of middle-aged and older people, but we found that there was a problem with the oral administration of this substance. We found that lactoferrin was decomposed by gastric acid and digestive enzymes in the stomach and was not able to work its positive effects in the intestines.

We concluded that it was necessary to have technology that would enable the lactoferrin to pass through to the intestines. We, therefore, concluded a strategic alliance with a pharmaceutical venture business and succeeded in developing a drug coating material that does not dissolve in the stomach but passes through to and then dissolves in the intestines. We then confirmed the effectiveness of lactoferrin through tests on human beings, and verified scientifically that it reduced the areas of visceral fat and waist sizes of human beings through external clinical tests.*

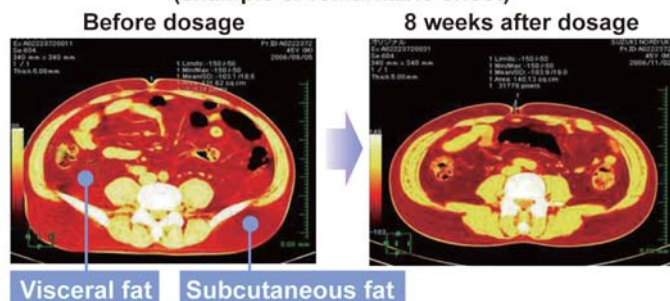
We subsequently continued to compile and strengthen the body of evidence of lactoferrin's effectiveness through collaboration with external research institutes. Using the latest analysis technologies, including nutrigenomics, which analyzes the effect on gene expressions resulting from specific substances, such as food ingredients, and other technologies, we made further analyses of the effectiveness mechanism.

The research results on lactoferrin have obtained high evaluations in academic circles in Japan and overseas, and they won three awards during the fiscal year from leading academic associations.

Notes: * Double-blind comparison tests on 30 adult males aged 30 to 62 with body mass indexes (BMI) of 25 or higher.

** The three awards were: The 2011 (55th) Award for Excellence in Oil & Fat Technology, presented by the Foundation, Oil & Fat Industry Kaikan; The 16th Momofuku Ando Award for Excellence, presented at the 2011 Creative Meeting; and The 2012 Bioscience, Biotechnology, and Agrochemistry Award, presented by the Japan Society for Bioscience, Biotechnology, and Agrochemistry

C.T. images of the changes in areas of visceral fat (example of remarkable effect)



After an eight-week dose, visceral fat areas in the abdomen decreased an average of 12.8cm², with an average reduction in waist circumference of 3.4cm, and an average weight loss of 2.5kg.

Changes in the area of visceral fat

